MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

BEC1044 – MACROECONOMICS

(All sections / Groups)

13 MARCH 2019
9.00 a.m. - 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of SEVEN (7) pages excluding cover page with Section A and Section B.
   Section A: 25 multiple choice questions [25 marks]
   Section B: 3 structured questions [75 marks]

2. Answer **ALL** questions in **Sections A & B.**

3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS [25 MARKS]

Instructions: Answer ALL questions in this section. Shade the answers on the OMR sheet.

1. In a simple circular-flow diagram total income and total expenditure are
   A. never equal because total income always exceeds total expenditure.
   B. seldom equal because of the ongoing changes in an economy's unemployment rate.
   C. equal only when one ringgit is spent on goods for every ringgit that is spent on services.
   D. always equal because every transaction has a buyer and a seller.

2. GDP does not reflect
   A. the value of leisure.
   B. the value of goods and services produced at home.
   C. the quality of the environment.
   D. All of the above are correct.

3. The CPI is a measure of the overall cost of
   A. inputs purchased by a typical producer.
   B. goods and services bought by a typical consumer.
   C. goods and services produced in the economy.
   D. stocks on the Bursa Malaysia Exchange.

4. The price index in the first year is 150; in the second year it is 160; and in the third year it is 175. The inflation rate is about
   A. 1.07 percent between the first and second years, and 1.09 percent between the second and third years.
   B. 5.4 percent between the first and second years, and 9.4 percent between the second and third years.
   C. 6.7 percent between the first and second years, and 9.4 percent between the second and third years.
   D. 10 percent between the first and second years, and 1.09 percent between the second and third years.

5. Suppose OPEC succeeds in raising world oil prices by 300 percent. This price increase causes inventors to look at alternative sources of fuel for internal-combustion engines. A hydrogen-powered engine is developed which is cheaper to operate than gasoline engines. Which problem in the construction of the CPI does this situation represent?
   A. substitution bias and introduction of new goods
   B. introduction of new goods and unmeasured quality change
   C. unmeasured quality change and new goods
   D. income bias and substitution bias

Continued...

6. Which of the following is a determinant of productivity?
   A. human capital per worker
   B. physical capital per worker
   C. natural resources per worker
   D. All of the above are correct.

7. Human capital is the
   A. knowledge and skills that workers acquire through education, training, and experience.
   B. stock of equipment and structures that is used to produce goods and services.
   C. total number of hours worked in an economy.
   D. same thing as technological knowledge.

8. Outward-oriented policies
   A. prevent countries from taking advantage of gains from trade.
   B. have generally led to high growth for the countries that pursued them.
   C. receive little support from economists, despite such polices success.
   D. prevent countries from achieving economic growth.

9. In the aggregate expenditures model, the most important determinant of consumption and saving is the
   A. level of bank credit.
   B. level of income.
   C. interest rate.
   D. price level.

10. The equilibrium level of GDP in a private closed economy is where:
   A. MPC = APC.
   B. unemployment is about 3 percent of the labour force.
   C. consumption equals saving.
   D. aggregate expenditures equal GDP.

11. Which of the following is **NOT** a determinant of the long-run level of real GDP?
   A. the price level
   B. the supply of labour
   C. available natural resources
   D. available technology

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12. According to the sticky-wage theory of the short-run aggregate supply curve, if workers and firms expected prices to rise by 4 percent, but instead they rise by 2 percent, then
    A. employment and production rise.
    B. employment rises and production falls.
    C. employment falls and production rises.
    D. employment and production fall.

13. Mia puts money into a piggy bank so she can spend it later. What function of money does this illustrate?
    A. store of value
    B. medium of exchange
    C. unit of account
    D. a short-term borrowing tool

14. Bank Negara Malaysia can increase the price level by conducting open market
    A. sales and raising the discount rate.
    B. sales and lowering the discount rate.
    C. purchases and raising the discount rate.
    D. purchases and lowering the discount rate.

15. Suppose that the reserve ratio is 10 percent and that a bank has RM2,000 in deposits. Its reserves are
    A. RM20.
    B. RM200.
    C. RM1,880.
    D. RM1,800.

16. As the price level decreases, the value of money
    A. increases, so people want to hold more of it.
    B. increases, so people want to hold less of it.
    C. decreases, so people want to hold more of it.
    D. decreases, so people want to hold less of it.

17. According to the quantity equation, if $P = 12$, $Y = 6$, and $M = 8$, then $V =$
    A. 16.
    B. 9.
    C. 4.
    D. 12.

18. Liquidity preference refers directly to Keynes' theory concerning
    A. the effects of changes in money demand and supply on interest rates.
    B. the effects of changes in money demand and supply on exchange rates.
    C. the effects of wealth on expenditures.
    D. the difference between temporary and permanent changes in income.

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19. The government buys a bridge. The owner of the company that builds the bridge pays her workers. The workers increase their spending. Firms that the workers buy goods from increase their output. This type of effect on spending illustrates
    A. the multiplier effect.
    B. the crowding-out effect.
    C. the Fisher effect.
    D. the Phillips curve effect.

20. In the long run, policy that changes aggregate demand changes
    A. both unemployment and the price level.
    B. neither unemployment nor the price level.
    C. only unemployment.
    D. only the price level.

21. A change in expected inflation shifts
    A. the short-run Phillips curve, but not the long run Phillips curve.
    B. the long-run Phillips curve, but not the long run Phillips curve.
    C. neither the short-run nor the long-run Phillips curve.
    D. both the short-run and long-run Phillips curve right.

22. A country sells more to foreign countries than it buys from them. It has
    A. a trade surplus and positive net exports.
    B. a trade surplus and negative net exports.
    C. a trade deficit and positive net exports.
    D. a trade deficit and negative net exports.

23. Net capital outflow equals the difference between a country's
    A. income and expenditure.
    B. investment and saving.
    C. buying of foreign goods and services and sales of goods and services abroad.
    D. purchases of foreign assets and sales of domestic assets abroad.

24. In the open-economy macroeconomic model, the demand for loanable funds comes from
    A. domestic investment.
    B. net exports.
    C. net capital outflow.
    D. the sum of net capital outflow and domestic investment.

Continued...

25. In the open-economy macroeconomic model, other things the same, a decrease in the interest rate shifts
    A. the demand for dollars in the market for foreign-currency exchange to the right.
    B. the demand for dollars in the market for foreign-currency exchange to the left.
    C. the supply of dollars in the market for foreign-currency exchange to the right.
    D. the supply of dollars in the market for foreign-currency exchange to the left.

SECTION B: STRUCTURED QUESTIONS (75 MARKS)

Instructions: Answer **ALL** questions in this section. Write your answers in the answer booklet provided.

Question 1

a) Besides investment in physical and human capital, what other public policies might a country adopt to increase productivity? Present any **TWO (2)** of the public policies. (8 marks)

b) Given that the linear equation for consumption in a hypothetical two-sector economy without government is $C = RM40 + 0.8Y$, calculate:

(i) the marginal propensity to consume (MPC). (2 marks)

(ii) the marginal propensity to save (MPS). (2 marks)

(iii) the size of the multiplier. (2 marks)

(iv) the equilibrium level of GDP provided that the planned investment which is independent of the level of GDP is RM160. (2 marks)

c) Explain the **THREE (3)** effects that cause aggregate demand (AD) curve to slope downward. (9 marks)

[Total: 25 marks]

Question 2

a) Explain how an increase in government expenditure affects the aggregate demand (AD). (2 marks)

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b) For each of the following, explain the impact on the aggregate demand (AD), short run aggregate supply (SRAS) and long run aggregate supply (LRAS) of Malaysia:

(i) It is announced that Malaysia has just entered into a recession. (3 marks)

(ii) The price of petroleum falls by another 20%. (3 marks)

(iii) Political and social unrest in Thailand have caused many foreign firms to relocate their business to Malaysia. (3 marks)

c) Analyse the effects on a country's price and real output levels if the central bank reduces money supply during inflation. (8 marks)

d) Explain how an increase in government spending may lead to a crowding out effect. (6 marks)

[Total: 25 marks]

Question 3

a) Describe any **THREE (3)** costs of inflation. (6 marks)

b) Explain the significant difference between the short run and long run Phillips curve. (6 marks)

c) Assuming all other things equal, state what would happen to Ringgit Malaysia (RM) real exchange rate under each of the following circumstances.

i) Malaysian nominal exchange rate depreciates. (1 mark)

ii) Malaysian domestic prices increase. (1 mark)

iii) Prices in the rest of the world rise. (1 mark)

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d) In ***Table 1*** below, state the direction of the variables that change in response to the events in the first column. [Note: Candidates are required to reproduce the ***Table 1*** in the answer booklet]

Table 1

	Malaysian real interest rate [rises/falls/ no change]	Malaysian domestic Investment [rises/falls/ no change]	Malaysian net capital outflow [rises/falls/ no change]	Malaysian real exchange rate of domestic currency [depreciates/ appreciates/no change]	Malaysian trade Balance [rises/falls/ no change]
i) A rise in Malaysian government budget deficit					
ii) Malaysia imposes import quotas to protect its domestic industry					

(10 marks)

[Total: 25 marks]

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